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FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 6592
INFO RUEHHH/OPEC COLLECTIVE
RUEHAC/AMEMBASSY ASUNCION 0696
RUEHBO/AMEMBASSY BOGOTA 7049
RUEHBR/AMEMBASSY BRASILIA 5779
RUEHBU/AMEMBASSY BUENOS AIRES 1481
RUEHLP/AMEMBASSY LA PAZ 2362
RUEHPE/AMEMBASSY LIMA 0610
RUEHSP/AMEMBASSY PORT OF SPAIN 3264
RUEHQ/AMEMBASSY QUITO 2456
RUEHSG/AMEMBASSY SANTIAGO 3786
RUEHDG/AMEMBASSY SANTO DOMINGO 0324
RUEHKO/AMEMBASSY TOKYO 0134
RUMIAAA/HQ USSOUTHCOM MIAMI FL
RHEHAAA/WHITEHOUSE WASHDC
RHEBAAA/DEPT OF ENERGY
RUCNDT/USMISSION USUN NEW YORK 0556
RUCPDOC/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY
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SIPDIS

SENSITIVE
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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
NSC FOR DTOMLINSON

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SUBJECT: PDVSA RELEASES 2005 FINANCIALS

¶11. (U) SUMMARY: PDVSA released its 2005 financial results on October 3. According to a presentation by PDVSA President and Minister of Energy and Petroleum (MEP) Rafael Ramirez, PDVSA had worldwide revenues of USD 85.73 billion in 2005 and USD 6.483 billion in profits. These results shed a little light on PDVSA activities, though most of the Venezuelan state oil company's activities remain opaque. END SUMMARY.

¶12. (U) According to an October 3 presentation to the board of directors of PDVSA and a PDVSA publication in El Universal (leading Venezuelan daily), PDVSA had worldwide revenues of USD 85.73 billion in 2005, during which time the average price for the Venezuelan oil basket was USD 46.15. (Note: For 2006, the average price has been USD 58.26. End note.) USD 81.105 billion in revenues came from exports and activities outside of Venezuela, USD 1.408 billion from domestic sales, USD 2.040 billion from petrochemical sales and USD 1.177 from PDVSA affiliates. Revenues were not broken out by activity or subsidiary and PDVSA reported a net profit of USD 6.483 billion. (Note: PDVSA's net margins (revenues/profits) were 7.6 percent in 2005, a decrease from 8.3 percent in 2004. The average price for the Venezuelan basket of oil increased USD 13.15 during this time period. End note.)

¶13. (SBU) PDVSA reported spending USD 32.979 billion (38 percent of total revenue) to purchase petroleum and petroleum products in 2005. (Comment: While PDVSA does need to import some products to refine gasoline, the amount is nowhere near USD 33 billion. PDVSA does not export enough oil to fulfill demand by its foreign subsidiaries and it is probably purchasing oil and gasoline to supply these subsidiaries, including CITGO. PDVSA may also be buying oil and gasoline to cover its production declines and refining problems, which will be covered in septel. End Comment.) Operating costs for 2005 were USD 14.645 billion, exploration costs were USD

118 million and depreciation and amortization accounted for USD 3.334 billion.

¶4. (SBU) PDVSA reported contributing USD 17.738 billion to BRV coffers in 2005, divided between income tax (USD 5.069 billion), royalties (USD 11.327 billion) and dividends (USD 1.342 billion). In addition, PDVSA contributed USD 3.762 billion for social programs, USD 2 billion to the Fund for Economic and Social Development (FONDESPA) and USD 1.525 billion to the Fund for Economic Development (FONDEN). Total funding for government programs (including taxes and social contributions) from PDVSA was USD 25.025 billion in 2005. (Comment: These numbers are "on the books" amounts and most probably under-represent actual PDVSA support for the BRV. In addition to supporting BRV missions and social programs, handling aid and development projects around the world and hiring tens of thousands of excess employees, PDVSA has been accused of storing proceeds abroad. End Comment.)

¶5. (SBU) According to PDVSA, average oil production in 2005 was 3,274,000 barrels/day. Of this amount, 2,170,000 barrels/day were produced by PDVSA (this includes 61,000 of orimulsion), 502,000 by the operating service agreements (OSA) and 602,000 by strategic associations in the Orinoco belt. (Note: According to the published statement, the production from the OSAs and strategic associations could not be independently verified by the auditors. End note.) PDVSA invested USD 3.878 billion during 2005, of which USD 2.830 billion went to oil and gas production. (Comment: Most analysts agree that PDVSA is not investing enough to maintain current production levels, which we believe to be around 2.6 - 2.7 million barrels per day, let alone meet its ambitious goal of producing 5,847,000 barrels/day in 2012. End

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Comment.)

¶6. (SBU) COMMENT: PDVSA only released its statements for 2004 in June of this year and it remains doubtful as to whether the release of information foreshadows a fuller release of financial documents (including long overdue submissions to the SEC). Post compared the June release with the one this week (which listed 2005 and 2004 data) and there appears to be about a billion dollar discrepancy between the two publications. There has been speculation in recent weeks that PDVSA would issue USD 2.5 - 3.5 billion in dollar-denominated bonds on the local market to help the BCV soak up liquidity and reduce inflation. PDVSA bonds are now trading at a discount to BRV bonds due to uncertainty as to PDVSA's finances (the first time in recent history that this is the case) and it is possible that PDVSA could not find underwriters for the issue without first releasing its financial results for the past few years.

¶7. (SBU) Ramirez ended his presentation noting that the annual results were a product of the sustained efforts and "high moral character of the workers of the petroleum industry, society, and the armed forces to make the new PDVSA a fundamental instrument for combating poverty and exclusion, and an essential tool for the construction of socialism in a free, just and unified nation." END COMMENT.

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